

MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

Overview

Funding for services provided to Gallatin County residents come from a variety of sources. The County strives to maintain a diversified and stable revenue system that will provide shelter from short-term fluctuations in any one revenue source and ensure the ability to provide ongoing services, within the confines of Montana Law. Gallatin County is heavily reliant upon property tax levy for its general fund, public safety and road / bridge revenue, which is explained in greater detail on the following pages. The County will continue its policy of seeking alternative revenue sources to lower the tax burden for County services, charging users for specific services where feasible, and aggressively collecting all revenues due the county. Enterprise fund revenues are generated through direct fees for service. Total estimated (budgeted) revenue, regardless of the source, amounts to \$71,762,531 for FY 2009.

County revenues are divided into eight basic categories: Taxes and Assessments; Licenses and Permits; Intergovernmental Revenue; Charges for Services; Fines and Forfeitures; Miscellaneous Revenue; Investment Earnings; and Inter-fund Transfers.

Taxes and Assessments: This revenue is comprised of Taxes derived from the levying of taxes on real property and personal tangible property and Assessments or generated by charges within districts either based on value or a unit. Examples of taxes are real property taxes Assessment examples are Rural Improvement District (RID) Maintenance fees and Fire Service Area Fees.

Licenses and Permits: Revenues derived from the issuance of local licenses and permits. The county has very few licenses and permits.

Intergovernmental Revenue: Revenues received from federal, state and other local government sources in the form of grants, shared revenues, and payments in lieu of taxes. State entitlement, grants, and PILT are examples of Intergovernmental Revenue.

Charges for Services: All revenues stemming from charges for current services—primarily revenues of Enterprise and Internal Service Funds. Examples of charges for services are solid waste disposal fees, Rest Home and charges collected by Clerk & Recorder, Planning and Zoning areas.

Fines and Forfeitures: Revenues received from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for neglect of official duty. Examples include: court fines, wedding fees, victim witness fines and bonds forfeited.

Miscellaneous Revenue: Revenue from sources not otherwise provided in other categories. Rents and impact fees are examples of miscellaneous revenues.

Investment Earnings: Revenue derived from the investment of available cash balances.

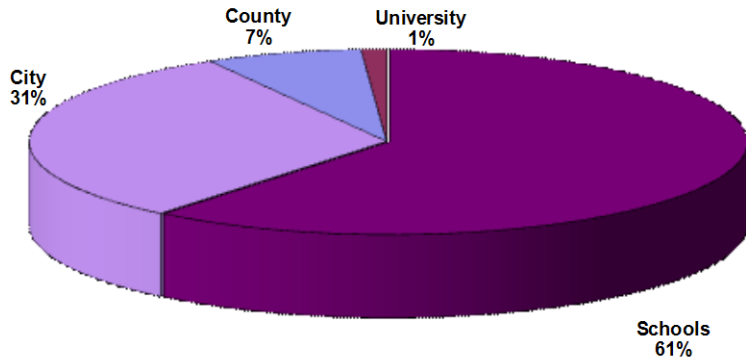
Interfund Transfers: Transfers between individual funds of a governmental unit that are not repayable and are not considered charges for goods or services. An example is matching funds transferred from public safety to Drug Task Force for grant match and administrative costs.

MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

When talking about County Revenues we must state that county revenues are only 20% of revenue collected by the Treasurer. The majority of revenue is collected and used by Trust and Agency accounts. These include 16 Elementary School Districts, 6 High School Districts, 5 Cities and Towns and many state Funds.

Where Taxes Go - \$150,000 DOR Value Property



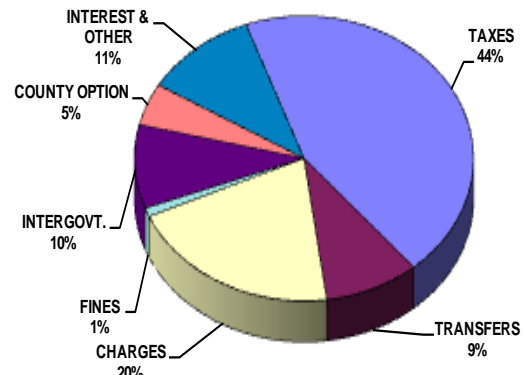
A graph of where tax money (FY 08) in FY 08 goes shows Schools received \$1,851, the City of Bozeman generated \$939, and Gallatin County collected \$216.

A similar graph for other areas would show comparable break downs, with schools generally receiving 72% of taxes, county 18%, cities 9% and state university 1% for the county as a whole.

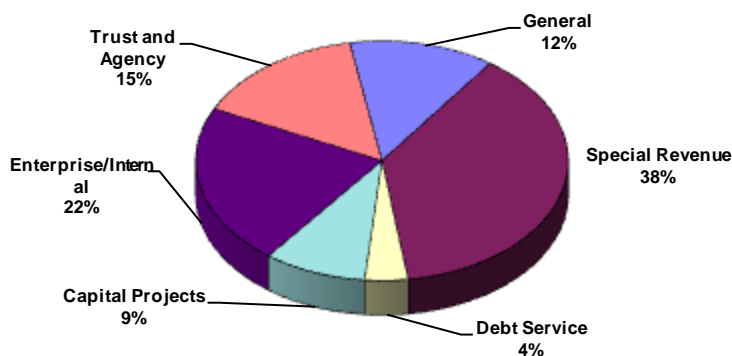
Shown by the graphs below are two pie charts giving graphic overview of total county revenues—one by the Type and the other by Fund Group.

As depicted by the graph of revenues by type, taxes and assessments and charges for services are the two largest categories of county revenues for FY 08 (74% vs. 64% for FY 07 and 62% for FY 06). Interest and Other is the next largest source at 7%, compared to 11% in FY 07 and 8% in FY 06. Finally, Intergovernmental revenues account for 8% of all revenues. These four revenue types constitute 89% of all Gallatin County revenues estimated for FY 09.

Revenue by Type - All Funds - FY 09



Revenues by Fund Group - FY 09



The graph of Revenues by Fund Group gives the reader a look at the 'Big Picture' of county revenues. The graph on the left shows the general fund accounts for 12% of revenues, Enterprise and Internal Service Funds generate 22%, Special Revenue Funds are at 38% and Capital Projects account for 9%. These four Fund Groups generate 81% of all revenues coming into the County Funds.

MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

Revenue Forecast Assumptions & Methodology

Forecasting, as used in the budget, refers to the methodology used in projecting future changes in revenues. It provides an estimate of revenue amounts that will be available and the resources required to meet current service levels and programs over the forecast period. The value of forecasts is in estimating whether (given assumptions about local financial policies and economic trends) the County will have sufficient resources to meet the resource requirements of ongoing, planned, or mandated programs. Forecast models have the added value of providing a planning tool for capital projects and/or whether bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the County, as well as insight into tax, revenue, and service options the Commission must address. Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, revenue trends, and inflation. Specifically, for revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on prior year patterns.

In general, we seek to match revenue sources with economic and/ or demographic variables that most directly affect year-to-year changes in those revenues. Methods to project revenues used in the budget vary depending upon the type of revenue examined. However, the most common method used is **Trend Analysis** and especially a year-to date approach. Examination of a variety of revenue sources on a monthly basis, have revealed consistent patterns in the monthly collections. Trends are identified, along with an analysis of whether or not the trend is likely to continue. These have been good indicators of revenue collections during the course of a year and help to set a basis for future projections. Forecasting variances are analyzed and used to improve forecasting in future periods. **Expert Judgment** is a projection methodology that relies upon individual department directors and financial managers to make projections for the revenues that affect their operations.

Revenue Estimates

The National Advisory Council on State and Local Budgeting prepared a set of recommended practices relating to governmental revenue estimates. Stated below are some excerpts from their recommended practices, along with Gallatin County's revenue estimate practices.

Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisition. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances our understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.

One of the key analytical tool, to assist in the development of revenue estimates, is the comprehensive five-year financial forecast. This forecast considers key revenue and expenditure projection factors such as population, increases in the consumer price index (CPI) and other growth factors. The trending of these key factors and their affect on revenues and expenditures for the past ten years provides a historical basis for the five-year financial forecast. The forecast was initially prepared in 2001, and is updated annually during the mid-year budget review process.

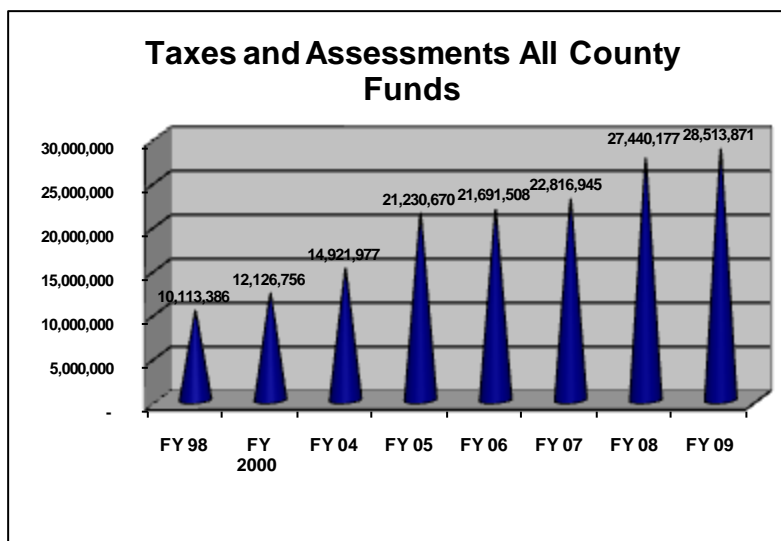
MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

Overall, the County's practice is to budget revenues conservatively and to use as much information as possible to enhance the accuracy of revenue estimates. By identifying and utilizing as many revenue-related variables as possible in forecasting, we minimize the risks of overstating or understating revenues that could arise from using only a few variables to forecast revenues. Our approach to forecasting, in general, is to apply a conservative philosophy that will produce our long-term goal of not overstating revenues. Most estimates involve two projections: an estimate for the amount to be collected in current year based on year-to-date activity; and an estimate for the increase or decrease in receipts anticipated for a future budget year. As part of the mid-year budget review process, the revenue assumptions included in the forecast are comprehensively reexamined based on actual results for 2007-08 as well as emerging trends at the mid-point of the year.

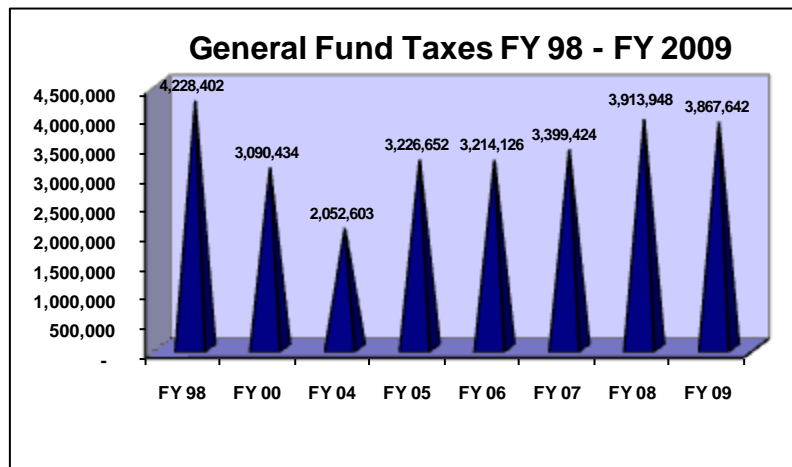
The following revenue categories, their trends, and estimates represent 92% of total County Revenues.

Key Revenue Estimates & Trends



Taxes and Assessments generate 45% of the County's Revenues. The graph on the left shows Taxes and Assessments for all County Funds over a 8-year period, with estimates for the current year and budgeted revenues for FY 08. The increase in revenues comes from the effects of reappraisal, new construction, voted levy increases for Open Land Bond, 9 mills for Dispatch, new taxes for fire districts and fires service areas, new rural improvement districts and taxes authorized by legislature.

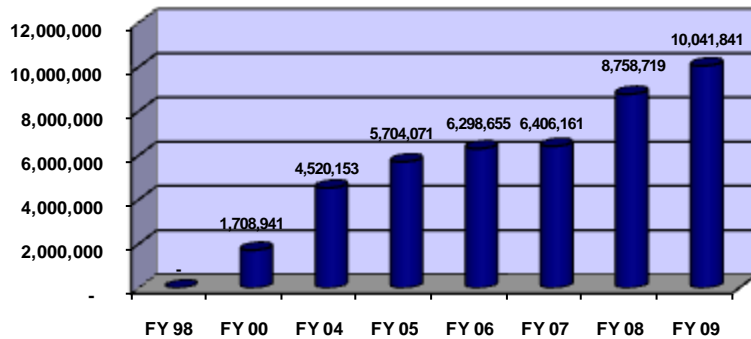
The graph on the right shows actual General Fund Taxes for an 8-year period, together with estimates for the current year and budgeted revenues for FY 08. The reduction in revenues in FY 00 began in FY 99 when the Public Safety Fund was created. This reduced the taxes generated by the General fund and created taxes in the Public Safety Fund. The Change did not increase the tax burden for taxpayers. The General Fund is now predominately the Administrative arm of the County.



MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

Public Safety Fund Taxes FY 98 - 2009

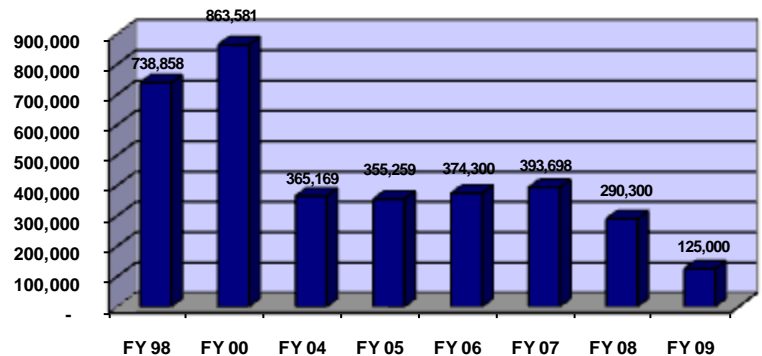


The Public Safety Fund (created in FY 99 from the General Fund) tax is the single largest portion for Gallatin County Government. The rapid growth of taxes comes from yearly decisions by the County Commission to emphasize Public Safety with a corresponding increase in taxes. The majority of the increase comes from the inflation mills and decreases in millage to other County Tax supported funds, including the elimination of the Employer Contribution Fund in FY 03.

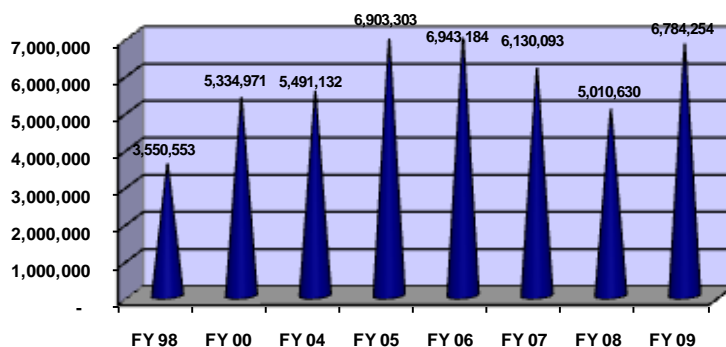
Licenses & Permits for all County funds

are shown on the right. The decline from FY 00 reflects the state Legislatures elimination of several revenue sources, (including Motor Vehicle Fees, Bank License taxes, Gambling Revenues and others); the lost revenue offset the state assumption of Public Assistance and District Courts. The change included the state transferring a portion of the revenue back as an Entitlement. These revenues are shown as Inter-governmental Revenues. This revenue source sees a decrease from FY 07 with the elimination of revenues from delinquent motor vehicles and gambling tables.

License & Permits



Intergovernmental Revenue

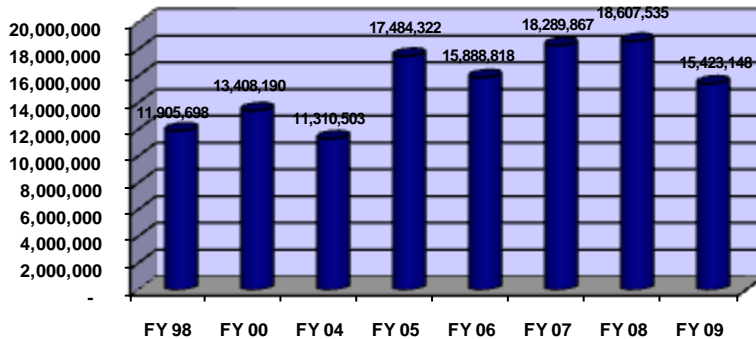


The decrease in Intergovernmental Revenues (7% of revenues) in FY 08 is directly related to a significant decrease in Grant Revenues, such as TSEP, Home, and CTEP etc. The increase in FY 2000 comes from implementation of the Big Bill (HB 124). See Comments under Licenses and Permits. The net result of this change is Gallatin County receiving less revenue than it would have received under the pre HB 124. Since Gallatin County is a growing county with Motor Vehicle and gambling revenues increasing at an 8-10% annual rate and Entitlement growth is at a 2-3% rate.

MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

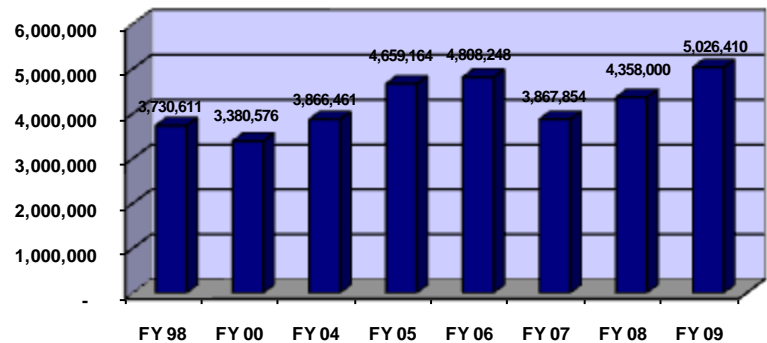
Charges for Services - All Funds Funds



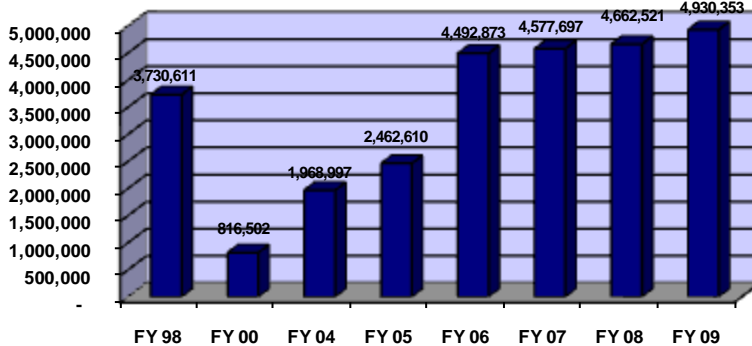
Charges for Services for all funds, represents 23% of Gallatin County revenues. The largest component of this source is charges generated by Enterprise activity. Specific graphs follow for the two largest components. Growth for the other fees is primarily based on estimated property activity including re-mortgaging, subdivision, zoning and property splits. These activities have seen a decrease of 35% from two years ago. But are anticipated to grow a modest 3% for FY 09.

Rest home charges for services changes are based on increases in federal / state requirements, the per day cost rate and estimated number of beds occupied. Revenues have increased from just under \$3.8 million in FY 98 to a projected \$5.0 million in FY 09. Another factor involved with Rest Home revenues comes from a decrease in available certified staff that has required a reduction in available beds to maintain the "high standard of quality care" the rest home is known for. With unemployment rates at 2.9%, this problem should decrease slightly for FY 09.

Rest Home - Charges for Services



Solid Waste - Charges for Services



Charges for services at the Logan landfill show a steady growth for FY 06, FY 07, FY 08 and continue in FY 09. This comes from the closing of the City of Bozeman landfill thereby increasing tonnage at the County Landfill.

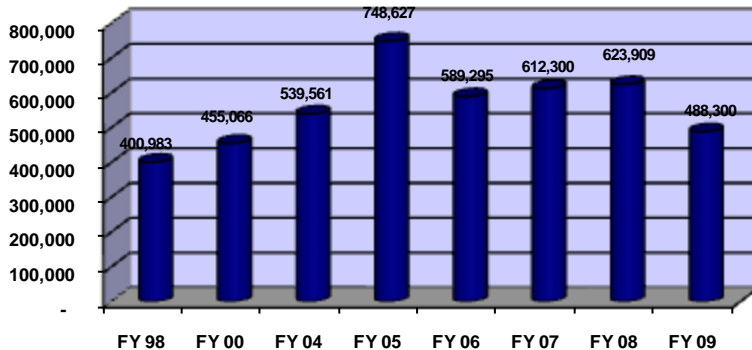
It is anticipated that with the increase in tonnage fees will stay the same for users within the Gallatin County Solid Waste District.

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Fines and Forfeitures – in the County, are generated primarily (95%) from two Justice Courts. Revenues increase and decrease based on a correlation between citations, Criminal acts, felonies and bonds based on

Fines and Forfeitures



population and the number of active officers (Sheriff, City Police, Town Marshal, Highway Patrol and Rangers/Wardens). The graph shows an increase from \$400,000 in FY 98 to \$485,100 estimated for FY 09. A 20% increase in 10 years. Another factor is doubling small claims from \$3,500 to \$7,000, resulting in more activity in the Justice Courts. The 50% decrease in FY 09 from FY 08 is from a change by the Supreme Court requiring the splitting of Bond Forfeitures with the State of Montana.

Investment earnings reflect a combination of available cash balances together with interest rate the county is able to obtain. As shown by the graph, investment earnings have been volatile, with sharp declines occurring in FY 03-04, which correspond to the interest rates in the national economy. Interest earnings in FY 09 are expected to be just over \$1.2 million. The County General Fund receives about 2/3 of the interest generated by county funds, with the Public Safety, Capital Projects and Public Works areas receiving the majority of the balance

Interest Earnings

